SGGF

MANAGEMENT CORPORATION

Saskatchewan Government Growth Fund III Ltd

2004 ANNUAL REPORT

Creating economic
wealth and diversification
through investment
of immigrant investor
capital in Saskatchewan

SASKATCHEWAN GOVERNMENT
GROWTH FUND

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FUND PROFILE

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") is a government-administered venture capital fund pursuant to the Immigration Regulations, 1978 (Canada), as amended. It was formed in 1994 to enable immigrant investors to invest in businesses operating in Saskatchewan and facilitate the investors' qualification as Canadian permanent residents under the Immigrant Investor Program.

FINANCIAL HIGHLIGHTS

- The Fund recorded net income in 2004 of $2.2 million and has an accumulated deficit at December 31, 2004 of $3.7 million.
- Net revenue for the year, including recognition of the fair value of investments, was $2.5 million.
- The principal amount repaid on Notes at maturity was increased to $165,000 in 2004 from $160,000. An additional payment was made to investors who had been paid a lower amount when their Notes matured. Further payments will be made as cash becomes available from the liquidation of investments.

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MESSAGE TO INVESTORS

The priority of Saskatchewan Government Growth Fund III Ltd. in 2004 continued to be the liquidation of its remaining investments to provide funds for payments to Noteholders.

Effective January 1, 2004, the Fund adopted new accounting standards which require that investments be recorded at their fair value as at the date of the financial statements. The periodic change in fair value is reflected in the Statement of Operations.

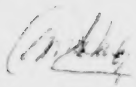
The Fund recorded net income of $2.2 million in 2004, primarily as a result of the recognition of the difference of $2.4 million between the fair value of investments and their carrying value on the previous basis of accounting. This difference arises with respect to investments in small and medium-sized enterprises. Also, the low interest rate environment has had a negative effect on returns available from portfolio investments and infrastructure loans. In 2004, income realized from investments totalled $104,000 which was insufficient to cover the costs of interest on Note obligations to investors and the costs of managing the Fund which totalled $356,000.

The accumulated deficit of the Fund is $3.7 million at December 31, 2004, compared with $5.9 million at December 31, 2003.

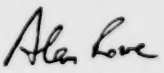
Payments to Noteholders on maturity of the Notes are established periodically based on forecasts of cash expected to be available from disposal of investments and scheduled maturities of Notes. This ensures that all investors are treated equally on the maturity of their Notes. In 2002, the amount paid at maturity was set at $150,000. In 2003, the payment at maturity was increased to $160,000 and in 2004, to $165,000.

As a result of investment losses in prior years, it is unlikely that SGGF III will be able to repay the full principal amount of the Note obligations to investors. It is not possible to determine the amount that will ultimately be paid on the Notes. The Fund has two significant investments remaining in its portfolio. It is expected that the liquidation of these investments for proceeds which reflect their fair value will not be possible until 2007. Accordingly, no further distributions will be possible until then.

In 2005, SGGF III will continue to actively manage its remaining investments with a view to achieving the best liquidation proceeds available in the prevailing circumstances so that additional payments can be made to investors whose Notes have matured. As significant new developments occur, such information will be provided to the Noteholders.



Roland Hardy
Chair



Alan M. Rowe
President

February 23, 2005

The following are profiles of investments held by SGGF III during 2004, including the principal amount invested at December 31, 2004 and a description of the companies' operations. The date of the initial investment in each company is noted in parentheses.

Big Sky Farms Inc. (January 1996)
$3,000,000 common shares

Big Sky Farms, headquartered in Humboldt, Saskatchewan, operates a number of farrow-to-finish hog operations in Saskatchewan. These operations are among the largest hog production facilities in western Canada.

Fairmount Energy Inc. (July 2004)
common shares

Fairmount Energy is an oil and natural gas exploration and development company. The Fund received its shares in the company in 2004 on reorganization of Star Biotech Inc. (now Star Bio Investments Inc.), a company in which the Fund invested in 1998.

Points North Leasing Inc. (April 1998)

Points North, with headquarters at Points North Landing, Saskatchewan, owns aircraft, buildings, equipment and vehicles that are leased to a freight forwarding business serving northern Saskatchewan. During 2003, the assets securing the Fund's loans to the company were refinanced or sold, and the Fund received the related proceeds in payment of loans owing. The Fund's remaining security ranks second or lower behind other creditors of the company.

Prairie Sulphate Corporation (August 1996)
$1,144,915 loans; preferred shares, and common shares

Prairie Sulphate Corporation is located at Alsask, Saskatchewan. The company manufactured potassium sulphate fertilizer, a specialty product used in the care of chloride sensitive plants such as citrus trees, tobacco, and golf course greens. The company experienced financial and operating difficulties and in 2004 was petitioned into bankruptcy. The company's assets were sold at auction and the Fund expects that only nominal proceeds will be received on its investment.

Star Bio Investments Inc. (January 1998)
$52,284 common shares

Star Bio Investments Inc. is a successor company to Star Biotech Inc. Star Biotech was a Saskatoon-based biotechnology company which used advanced technologies to develop and produce high value-added, bio-engineered vaccines for animals and humans. In 2002, the Fund's debt investment was converted to shares and the company sold its assets for a combination of cash and equity and royalty interests in other companies. In 2004, the company reorganized and the Fund received common shares of Star Bio Investments Inc., which holds the equity and royalty interests, and of Fairmount Energy Inc. The Fund's recovery on this investment is dependent on Star Bio Investments selling its equity and royalty interests.

CAJON Leasing (December 2001)

CAJON, located in Regina, leases vehicles and other assets to Saskatchewan Crown corporations and government-related entities. It fully repaid its loans in 2004.

Background

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") is an immigrant investor fund which operates in accordance with the regulations of the federal Immigrant Investor Program (the "IIP"). The Fund began commercial operations in 1994 when it accepted its first subscription deposits. The Fund is financed by subscriptions received from immigrant investors. The objective of the Fund is to invest the proceeds of subscriptions in eligible businesses in Saskatchewan for a five year period as required by the IIP. This allows the immigrant investor to satisfy the investment requirements of the IIP for a Canadian-resident visa.

Obligations to investors

SGGF III's activities are financed by immigrant investors who have subscribed for unsecured, subordinated promissory notes ("Notes") offered through an Offering Memorandum. The interest rate for a Note is 2%. Obligations under the Notes are subordinate to all other liabilities of the Fund and repayment is dependent on the proceeds on liquidation of investments and all other available liquidity in excess of other liabilities.

The Notes mature five years from the date of issue. The IIP requires that the maturity date of a Note be extended if, and for so long as, less than 70% of the amount of the Note is invested in the active business operations of eligible businesses in Saskatchewan.

SGGF III was closed to new subscription applications on July 31, 1997.

At December 31, 2004, obligations to investors totalled $9.43 million (2003 – 10.29 million), comprised of $250,000 representing one Note (2003 - $750,000; three Notes) which has not yet matured, and $9.18 million representing 108 Notes (2003 - $9.54 million; 106 Notes) on which principal payments totalling $165,000 (2003 - $160,000) each have been paid to investors.

The remaining obligation to investors matures in 2005.

The Fund has prepared cash flow projections which indicate that timing differences exist between planned liquidations of investments and scheduled investor repayments as Notes become due. In order to treat all investors equally, the payment on Notes at maturity was initially set at $150,000. In 2003, the payment was increased to $160,000 and in 2004, the payment was increased to $165,000.The payment of any amount in addition to the initial payment at maturity is dependent on the liquidation of investments, many of which are in private companies as required by the IIP. These investments typically have more risk than other types of investments. Any forecast of when such investments will be liquidated reflects a best judgment based on current information, and involves a number of risks and uncertainties and other factors that may cause actual results to differ materially from the forecast. If the assumptions underlying current forecasts prove to be correct, payment of additional amounts may be possible in 2007; however, based on current forecasts, it is unlikely that the Fund will be able to repay the full principal amount of the Note obligations to investors.

SGGF III continues to actively manage its remaining investments with a view to achieving for investors the best liquidation proceeds available in the prevailing circumstances.

Total interest expense on obligations to investors in 2004 was $202,000 (2003 - $243,000).

Investments

The investment policy of the Fund reflects the requirements imposed by both the IIP and the Offering Memorandum. To meet these requirements, the Fund has established a target initial investment allocation consisting of:

- a maximum of 50%, and a minimum of 30%, invested in small and medium-sized enterprises ("SMEs") in Saskatchewan;
- a maximum of 30%, and a minimum of 20%, invested in loans to support infrastructure projects of the Province of Saskatchewan, and its agencies, municipalities and similar institutions; and,
- the balance invested in cash or liquid debt securities.

As investments are divested over time, the actual portfolio mix changes. Investments in SMEs and loans to support infrastructure qualify as "eligible businesses" for purposes of the IIP.

The following table sets out the investments of the Fund by type at December 31 in each year:

	2004			2003		
	No.	**$ millions**	**%**	No.	$ millions	%
Other investments						
Small and medium-sized enterprises						
Debt investments	**2**	**0.3**	**6.6**	1	0.3	4.6
Equity investments	**3**	**3.0**	**77.4**	3	3.9	68.6
Total	**4**	**3.3**	**84.0**	3	4.2	73.2
Infrastructure loans	-	-	-	1	0.1	1.7
		3.3	**84.0**		4.3	74.9
Cash and publicly-traded and short-term investments		**0.6**	**16.0**		1.4	25.1
		3.9	**100.0**		5.7	100.0
Adjustment to fair value		**2.4**				
Provision for credit losses					(0.9)	
Carrying value		**6.3**			4.8	
Fair value		**6.3**			3.3	

Notes: 1 At January 1, 2004, the Fund changed its accounting policies so that investments are carried at fair value. The method of determining fair value at each financial statement date is described in Note 1 to the Financial Statements. Prior to January 1, 2004, debt investments were carried at cost with appropriate provisions for credit losses and equity investments were carried at the lower of cost and net realizable value.

2 The total number of SME investments represents the total number of companies. In some cases, an investment in both debt and equity instruments of the same company may have been made.

Investment and other income realized in 2004 totalled $104,000, compared with $178,000 in 2003. The decrease reflects a lower average balance of investments outstanding during the

year. An increase of $2.4 million in fair value of investments was recorded during the year. In 2003, a provision of $553,000 was recorded for investment losses under the previous basis of accounting which was partially offset by reversal of an allowance for unrealized losses on public equities. Net revenue in 2004 was $2.5 million, compared with $42,000 in 2003.

Management

The Fund is managed by the Saskatchewan Government Growth Fund Management Corporation ("SGGF MC") under a contract which provides for a management fee not to exceed 3.0% of the net assets of the Fund. SGGF MC has contracted administration and investment advisory services from Crown Capital Partners Inc. ("CCPI"), a private, national investment advisor based in Regina, Saskatchewan, and has retained subadvisors to provide investment advisory services. CCPI is paid a monthly fee for its services and will receive a performance fee based on the retained earnings, if any, of the Fund after all investor obligations are repaid in full and all investments have been liquidated. The subadvisors are paid a performance fee based on the performance of investments managed by them. No payments for performance fees are anticipated based on investment performance to date.

Administration expense for the Fund totalled $154,000 in 2004, compared with $223,000 in 2003. Administration expense, excluding adjustments to accruals for future performance-based fees, represented 2.7% (2003 – 3.5%) of weighted average total assets.

Results of operations

In 2004, net income of the Fund was $2.2 million, compared with a loss of $424,000 in 2003. Income in 2004 results from recognition of the fair value of investments held by the Fund. In 2003, the loss was caused by a provision for loss on a SME investment. Investment income on weighted average total assets, before losses on disposal and the adjustment to fair value, was 1.8% (2003 – 2.4%). Unrealized gains (2003 – provisions) and realized losses on disposal, net, were 41.6% (2003 – (1.9)%). Interest expense was 3.5% (2003 - 3.3%). All other expenses were 2.7% (2003 – 3.0%).

At December 31, 2004, the Fund had an accumulated deficit of $3.7 million compared with a deficit of $5.9 million at December 31, 2003.

Outlook and risks and uncertainties

The priority of SGGF III is the management of its investment portfolio to maximize returns and to provide for liquidation of investments to satisfy the obligations to investors at maturity of their Notes. Additional investments in SMEs will be made only to maximize the value of existing SME investments.

The investment allocation of the Fund which is prescribed by the IIP and Offering Memorandum significantly influences the returns available to the Fund. Investments in SMEs, which can represent up to 50% of the Fund's investments, provide an opportunity for higher returns, but also carry a higher risk of losses than other investment types, and a greater challenge to achieving liquidity at the precise time that Notes mature. On the other hand, the balance of investments which consist of liquid securities and loans to finance infrastructure, are relatively low risk, but also provide low returns that reflect the lower risk exposure.

The significant risks and uncertainties which affect the Fund relate to market risk, credit risk, interest rate risk, and liquidity risk. These risk factors are described in note 10 to the financial statements. The Fund manages these risks to the extent possible; however the factors may affect the ability of the Fund to repay its Notes at maturity. The Fund has no sources of funds to finance the repayment of its Notes other than the proceeds received on liquidation of its investments.

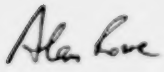
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The President and fund manager of the Saskatchewan Government Growth Fund III Ltd. are responsible for management of the Fund. The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include amounts which are based on informed judgement and management estimates. Financial data presented elsewhere in this annual report is consistent with that in the financial statements.

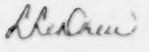
Management's responsibility includes ensuring the integrity and objectivity of financial information. Management maintains an appropriate system of internal accounting and administrative controls, policies and procedures to provide reasonable assurance that all transactions are authorized, financial records are complete and accurate, and assets are safeguarded against loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board has established an Audit Committee to review the Fund's accounting policies and financial statements prior to their presentation to the Board for approval. The Audit Committee also reviews the internal controls of the Fund, and meets regularly with the auditors. The Board has reviewed and approved these financial statements.

Deloitte & Touche LLP, the Fund's independent auditors, have examined the financial statements of the Fund. Their responsibility is to conduct an independent and objective audit and to report on the fairness of presentation of the Fund's financial position, results of operations and cash flows as shown in the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.



Alan M. Rowe, C.A.
President



Lori K. Le Drew, C.M.A.
Controller, Crown Capital Partners Inc.

February 23, 2005

AUDITORS' REPORT

To the Shareholder of Saskatchewan Government Growth Fund III Ltd.:

We have audited the statement of financial position of Saskatchewan Government Growth Fund III Ltd. as at December 31, 2004, and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

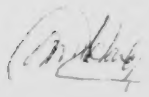
Regina, Saskatchewan
February 9, 2005

Saskatchewan Government Growth Fund III Ltd.
Statement of Financial Position

December 31	2004	2003
Assets		
Cash	**$ 323,078**	$ 942,341
Accounts receivable and accrued income	**67,680**	2,867
Publicly-traded and short-term investments (Note 5)	**309,900**	496,510
Other investments (Note 6)	**5,666,501**	3,357,410
	$ 6,367,159	$ 4,799,128
Liabilities and Shareholder's Deficiency		
Accounts payable and accrued liabilities	**$ 83,507**	$ 7,368
Commissions payable	**21,000**	22,250
Accrued interest payable to investors	**516,220**	320,530
Subscription deposits (Note 7)	**25,010**	25,010
Obligations to investors (Note 8)	**9,430,000**	10,290,000
	10,075,737	10,665,158
Share capital (Note 9)	**2,000**	2,000
Deficit	**(3,710,578)**	(5,868,030)
	(3,708,578)	(5,866,030)
	$ 6,367,159	$ 4,799,128

See accompanying notes to the financial statements.

On behalf of the Board:



Roland Hardy
Director

Lloyd Boutilier
Director

Saskatchewan Government Growth Fund III Ltd.
Statement of Operations and Deficit

Year ended December 31	2004	2003
Revenues		
Income from cash and publicly-traded and short-term investments	$ 24,621	$ 69,834
Income from other investments	78,508	108,095
Other income	1,250	-
	104,379	177,929
Losses realized on disposal of other investments	(1,029)	-
Increase in fair value of investments	2,409,705	
Allowance for unrealized gains on public equities		417,631
Provision for investment losses		(553,261)
	2,408,676	(135,630)
Net revenue	2,513,055	42,299
Expenses		
Administration (Note 11)	153,546	223,305
Interest on obligations to investors	202,057	242,892
	355,603	466,197
Income (loss) for the year	2,157,452	(423,898)
Deficit, beginning of year	(5,868,030)	(5,444,132)
Deficit, end of year	$ (3,710,578)	$ (5,868,030)

See accompanying notes to the financial statements.

Saskatchewan Government Growth Fund III Ltd.
Statement of Cash Flows

Year ended December 31	2004	2003
Cash flows from operating activities		
Income (loss) for the year	**$ 2,157,452**	$ (423,898)
Items not affecting cash:		
Losses realized on disposal of other investments	**1,029**	-
Increase in fair value of investments	**(2,409,705)**	
Provision for investment losses		553,261
Allowance for unrealized gains on public equities		(417,631)
Amortization of premium on bonds	**297**	-
Net change in non-cash balances related to operations (Note 12)	**205,766**	156,495
Cash flows from operating activities	**(45,161)**	(131,773)
Cash flows from investing activities		
Purchase of publicly-traded and short-term investments	**(310,110)**	(496,510)
Sale of publicly-traded and short-term investments	**496,510**	486,445
Disbursements on other investments	**(59)**	(55,772)
Repayments of other investments	**99,557**	4,316,140
Cash flows from investing activities	**285,898**	4,250,303
Cash flows from financing activities		
Repayment of obligations and subscription deposits	**(860,000)**	(4,810,000)
Cash flows from financing activities	**(860,000)**	(4,810,000)
Net decrease in cash	**(619,263)**	(691,470)
Cash, beginning of year	**942,341**	1,633,811
Cash, end of year	**$ 323,078**	$ 942,341
Interest paid during the year	**$ 6,366**	$ 44,644

See accompanying notes to the financial statements.

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements
December 31, 2004

1. Status of the Corporation

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") was incorporated in October 1994 under *The Business Corporations Act* (Saskatchewan) and has been accepted as a government administered venture capital fund under the federal government's Immigrant Investor Program ("IIP"). Under this program, the Fund was established to raise $35,000,000 through a note offering. Each note is a 2% unsecured, subordinated debt instrument with a principal amount of $250,000, repayable in five years provided that 70% of the proceeds are invested in eligible businesses ("Notes") throughout the five year period. The Fund commenced operations in 1994. The marketing period for the Fund ended on July 31, 1997.

The Confidential Offering Memorandum ("Memorandum") and the IIP prescribe various conditions which qualify an investment as an eligible business, including a requirement that the business be Saskatchewan based and have assets, including assets of associated companies, of less than $35 million.

The Government of Canada and the Government of the Province of Saskatchewan offer no guarantees or assurances on the financial performance of the Fund or of a return of an investor's original investment. Neither government will be liable for any loss or damages suffered by an investor as a result of an investment in the Notes.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are considered significant:

Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed quarterly and adjustments are reported in the Statement of Operations and Deficit in the period in which they become known. The primary measurement uncertainty which may affect the reported amounts relates to the determination of fair values of other investments as described below.

Publicly-traded and short-term investments

Publicly-traded and short-term investments are carried at fair value. Income from publicly-traded and short-term investments is recognized as earned. The change in fair value of publicly-traded and short-term investments during the year is included in the Statement of Operations and Deficit. Fair values for publicly-traded investments are determined by reference to quoted market values. Fair values for short-term investments are assumed to be equal to cost.

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements (continued)
December 31, 2004

Prior to January 1, 2004, publicly-traded debt investments were carried at amortized cost and publicly-traded equity investments were carried at the lower of cost and, in the case of investments where a loss in value that was other than temporary had occurred, net realizable value.

Other investments

Other investments include debt and equity investments in private companies. Other investments are carried at fair value. Income from debt investments ("loans") is recognized as earned except if the investment is impaired. A loan is considered to be impaired if, as a result of deterioration in credit quality, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is usually assumed to be impaired. Other factors that are considered in determining whether a loan is impaired are the overall credit quality of the borrower and the fair value of the underlying security. When a loan becomes impaired, recognition of interest income ceases. Income from equity investments is recognized when received. The change in fair value of other investments during the year is included in the Statement of Operations and Deficit.

Fair values for other debt investments are determined by calculating the present value of the remaining payments under the loans. The discount rate used is based on the expected return at the date of the financial statements for a loan to an investee with similar risk characteristics. The discount rate is comprised of a base risk-free rate based on a Government of Canada bond with equivalent duration, a credit risk premium based on publicly-traded debt with a BBB credit rating, and an additional credit risk and liquidity premium based on the circumstances of the specific investee.

Fair values for other equity investments are determined by management on the basis of the expected realizable value of the investments as at the date of the financial statements if they were disposed of in an orderly manner over a reasonable period of time, discounted at a discount rate which is appropriate at the date of the financial statements to investments in similar companies. There is no active secondary market for many investments which are not publicly-traded, and there is considerable uncertainty and a potentially broad range of outcomes with respect to the future cash flows from these investments. Valuations of such investments are subject to a number of assumptions and uncertainties that may cause actual values realized on disposal to differ materially from the fair value estimated at any particular time.

Generally accepted accounting principles limit the situations where investee companies over which an entity has significant influence are not consolidated. The Fund intends to dispose of its investments in due course; therefore, other investments are not consolidated.

Prior to January 1, 2004, other debt investments were carried at cost net of provisions for investment losses, and other equity investments were carried at the lower of cost and, where a loss in value that is other than temporary has occurred, net realizable value. A provision for investment losses was established for impaired loans to reduce their value to the estimated

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements (continued)
December 31, 2004

fair value of the security underlying the loan. If the credit quality of the loan subsequently improved, a provision was reduced or reversed.

Other equity investments that were evaluated as possibly being subject to a loss in value were assessed periodically based on appropriate criteria, including past operating results of the investee, financial outlook of the investee, recent capital transactions, and their associated value, between the investee and arm's length parties, and liquidity or going concern problems of the investee. When a decline in the value of an equity investment was no longer considered to be temporary, the investment was written down through a provision and was carried at the written down value until disposal of the equity investment.

Commissions payable

According to the terms of a marketing agreement entered into by the Fund, a commission is payable to the independent marketing agent selling the Note upon issuance of the investor's immigrant visa.

Obligations to investors

Obligations to investors represent the Notes issued to investors of the Fund. The Notes help to satisfy a portion of investors' visa requirements under the IIP. Interest to the maturity date of Notes is accrued at an annual rate of 2% from the date of Note issuance and is paid annually on December 31 and at maturity; thereafter, interest is accrued on any remaining balance outstanding.

3. Change in accounting policy

Effective January 1, 2004, the Fund prospectively adopted "Accounting Guideline 18 – Investment Companies" (AcG-18) of the Canadian Institute of Chartered Accountants. This guideline requires that for qualifying entities, investments held are to be measured and reported at their fair value as described in note 2. Previously, investments were carried at cost subject to certain adjustments as described in note 2. The change was implemented on a prospective basis, and the change in fair value recorded on the Statement of Operations and Deficit for the year ended December 31, 2004 represents the difference between the fair value of investments held at December 31, 2004 and either the carrying value, after provisions of the investment at December 31, 2003 or, in the case of investments acquired in 2004, the cost of the investment.

Recognition of the fair value of investments, net of losses realized on sale of investments, in 2004 of $2,408,676 is net of $1,515,501 representing the excess as at January 1, 2004 of the carrying value on the previous basis of accounting over the fair value of investments.

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements (continued)
December 31, 2004

4. Provisions of the IIP

Minimum holding period and maturity of the Notes

A Note is issued to evidence receipt of the full subscription amount on the date that at least 70% of the subscription amount has been invested in eligible businesses. Each Note is scheduled to mature five years from such date, provided the Fund maintains at least 70% of the Note continuously invested in the active business operations of eligible businesses for five years following the issuance date. The IIP contains provisions which require that the maturity date of a Note be extended if, and for such period that, a minimum of 70% of the Note amount ceases to be invested in the active business operations of eligible businesses.

5. Publicly-traded and short-term investments

Publicly-traded and short-term investments consist of Government of Canada Bonds ("Bonds") and Treasury Bills ("T-Bills").

Security	Rate %	Maturity Date	Par $	**2004 Carrying Value $**	2003 Carrying Value $
Bond	4.50	1/09/07	300,000	**309,813**	-
T-Bill	2.77	2/12/04	510,000	**-**	496,510
				309,813	496,510
Adjustment to fair value				**87**	
Carrying value				**309,900**	496,510
Fair value				**309,900**	508,419

6. Other investments

	2004	2003
Debt instruments	**$ 260,818**	$ 361,345
Equity instruments	**3,052,284**	3,936,381
	3,313,102	4,297,726
Adjustment to fair value	**2,353,399**	
Provision for investment losses		(940,316)
Carrying value	**$ 5,666,501**	$ 3,357,410
Fair value	**$ 5,666,501**	$ 1,830,000

Saskatchewan Government Growth Fund III Ltd.
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Included in investments is $260,818 (2003 - $1,198,169) of impaired investments, against which the accumulated provision for investment losses in 2003 was $940,316 and upon which income is not accrued. During the year $1,029 (2003 - $430,857) of investments and costs have been written off.

During the year, investments increased as follows:

	2004	2003
Balance, beginning of year	**$ 3,357,410**	$ 7,753,407
New investments	**59**	55,772
Book value of divestments	**(99,557)**	(4,316,140)
Investments and costs written off	**(1,029)**	(430,857)
Net change in fair value	**2,409,618**	
Net change allowance for unrealized losses on public equities		417,631
Net change in provision for investment losses		(122,403)
Balance, end of year	**$ 5,666,501**	$ 3,357,410

Debt instruments have interest rates ranging from 8.5% to 10% and maturity dates ranging from demand to January 2009.

7. Subscription deposits

Subscription deposits represent partial deposits on Notes received prior to 1997 which have not yet been refunded to investors. The Fund was closed to deposits in 1997 and investors who have made partial subscriptions have no right to complete their subscription.

8. Obligations to investors

Obligations to investors consist of 2.0% unsecured subordinated notes. The obligation at December 31 is:

	2004	2003
109 Notes (2003 – 109 Notes)	**$ 9,430,000**	$ 10,290,000

The obligation is comprised of 1 Note (2003 – 3) with a principal balance of $250,000 and 108 Notes (2003 - 106) with a remaining principal balance of $85,000 (2003 - $90,000).

The remaining Notes outstanding with a principal balance of $250,000 mature in 2005.

Obligations under the Notes are subordinate to all other liabilities of the Fund and repayment is dependent on the proceeds on liquidation of investments and other available liquidity in excess of other liabilities. The Notes are irrevocable, except in the case that a visa is denied.

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As a result of differences in the timing of proceeds from investments and scheduled maturities of Notes, the Fund set repayments on each Note at its maturity, beginning in January 2002, at $150,000. In 2003, this amount was increased to $160,000 with a further increase to $165,000 in 2004. Interest due on the remaining principal amount of each Note on which the principal has been partially repaid is accrued.

The Fund has a significant deficit and it is unlikely that the proceeds from the remaining investments will be sufficient to repay the remaining principal amounts in full. It is not known when, and to what extent, payments on the remaining unpaid amounts at maturity will be made.

9. Share capital

The authorized common share capital of the Fund at December 31 is:

Class A common shares – an unlimited number of voting common shares. Holders of these shares are not entitled to receive dividends.

Class B common shares – an unlimited number of voting common shares. Holders of these common shares are entitled to receive dividends.

The issued common share capital at December 31 is:

	2004	2003
2,000 Class A common shares	**$ 2,000**	$ 2,000

10. Risk management

The Fund's primary business is the raising of capital from immigrant investors and placing these funds in new and expanding Saskatchewan businesses. This investment activity entails exposure to market risk, credit risk, interest rate risk, and liquidity risk. These risk factors may impact upon the Fund's ability to repay its Notes at maturity.

Market risk

Market risk is the risk that the fair value of an investment may be affected by the ability of an investee company to profitably distribute its products. Some of the companies in which the Fund invests are dependent upon a single product or industry. The Fund manages this risk through careful due diligence prior to committing funds to the investment and by diversifying its investments across various industry sectors.

Saskatchewan Government Growth Fund III Ltd.
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Credit risk

Credit risk is the risk that an investee will fail to perform its obligations. Concentration of credit exposure may arise given that the Fund restricts its investments to businesses operating in Saskatchewan and therefore all investments are subject to a similar general economic environment. In addition, changes in commodity prices and foreign currency exchange rates may significantly affect the financial position of some investees. The Fund conducts thorough due diligence prior to committing to an investment and actively monitors the financial health of its investees on an on-going basis.

Interest rate risk

Interest rate risk is the risk that the Fund's earnings will be affected by fluctuations in interest rates. The Fund manages this risk through carefully monitoring and matching the duration of its investments with the duration of its obligations to investors.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in liquidating its investments at the time it is required to repay its Notes. Due to the nature of some of the Fund's investments, the timing of cash flows from its investments may not exactly match the payments owing under the Fund's Notes. The Fund carefully monitors the duration of its investments. However, timing differences may require the Fund to reduce or delay the payments owing on Notes at maturity.

Fair value – obligations to investors

No secondary market for the Notes exists. Due to the unique features associated with the Notes, the calculation of a fair value with appropriate reliability is impractical. The risk factors that affect the fair value of investments, as described above, also affect the fair value of obligations to investors. Repayment of these obligations at maturity is dependent upon the value and liquidity of investments at that time.

11. Administration

Under the terms of a management agreement between the Fund and Saskatchewan Government Growth Fund Management Corporation ("SGGF Management Corporation"), SGGF Management Corporation administers the assets of the Fund with the assistance of a manager that performs fund administration and investment management together with several investment subadvisors. SGGF Management Corporation does not guarantee the financial performance of the Fund. All services provided to the Fund are charged on a fee for service basis. The costs billed to the fund by SGGF Management Corporation are as follows:

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements (continued)
December 31, 2004

	2004	2003
Manager's fees	**$ 125,737**	$ 205,921
General administration	**10,079**	17,019
Directors' fees and expenses	**5,737**	9,473
Legal and professional	**11,993**	21,859
	$ 153,546	$ 254,272
Provision for manager's profit share	**-**	(30,967)
	$ 153,546	$ 223,305

12. Net change in non-cash balances related to operations

	2004	2003
Accounts receivable and accrued income	**$ (64,813)**	$ 13,700
Accounts payable and accrued liabilities	**76,139**	(41,953)
Commissions payable	**(1,250)**	(13,500)
Accrued interest payable to investors	**195,690**	198,248
	$ 205,766	$ 156,495

13. Income taxes

A provincial Crown corporation, SGGF Management Corporation, owns all of the issued shares of the Fund. Therefore, the Fund is exempt from income taxes.

14. Related party transactions

Included in these financial statements are amounts resulting from transactions with SGGF Management Corporation pursuant to a management agreement referred to in Note 11. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms. Total fees charged to the Fund by SGGF Management Corporation amounted to $153,546 (2003 - $254,272). Total fees payable to SGGF Management Corporation at December 31, 2004, and included in the above, are $7,542 (2003 - $7,368).

FIVE YEAR FINANCIAL SUMMARY

Financial Position (thousands of dollars)

December 31	2004	2003	2002	2001	2000
Assets					
Cash	$ 323	942	1,634	8,325	4,456
Publicly-traded and short-term investments	310	497	486	-	4,000
Other investments	5,666	3,357	7,753	11,428	17,817
Other assets	68	3	17	199	695
Total assets	$ 6,367	4,799	9,890	19,952	26,968
Liabilities and Deficit					
Obligations to investors	$ 9,971	10,635	15,247	24,655	27,600
Other liabilities	105	30	85	161	184
Deficit	(3,709)	(5,866)	(5,442)	(4,864)	(816)
Total liabilities and deficit	$ 6,367	4,799	9,890	19,952	26,968

Operating Results (thousands of dollars)

Years ended December 31	2004	2003	2002	2001	2000
Revenues					
Investment income	$ 78	108	313	470	749
Lease revenue	-	-	-	1,813	1,918
Interest from cash and publicly-traded and short-term investments	25	70	134	416	555
Other income	1	-	-	25	66
	104	178	447	2,724	3,288
Losses realized on disposal of investments	(1)	-	-	-	-
Adjustment to fair value	2,410				
Provision for losses on investments		(136)	(132)	(3,818)	(620)
Net revenue	2,513	42	315	(1,094)	2,668
Expenses					
Administration	154	223	377	563	391
Financing	202	243	516	2,391	2,565
Total expenses	356	466	893	2,954	2,956
Net income (loss)	$ 2,157	(424)	(578)	(4,048)	(288)

Note: Effective January 1, 2004, the Fund changed its accounting policy on a prospective basis to measure and report investments at their fair value.

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Gordon Mertler
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Fund Manager
Saskatchewan Government Growth Fund Management Corporation, which has retained Crown Capital Partners Inc. to provide management services

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Christopher J. Anderson, C.F.A., Partner
Brent Hughes, C.F.A., Partner
Brian A. Johnson, C.F.A., Managing Partner
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